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PROPOSED DECISION

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Decision **PROPOSED DECISION OF ALJ WONG** (Mailed 9/18/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company
to Set New Core Interstate Pipeline Capacity
Planning Range (U39G).

Application 13-06-011
(Filed June 13, 2013)

**DECISION REGARDING THE CORE INTERSTATE PIPELINE
CAPACITY PLANNING RANGE FOR
PACIFIC GAS AND ELECTRIC COMPANY**

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**DECISION REGARDING THE CORE INTERSTATE PIPELINE
CAPACITY PLANNING RANGE FOR
PACIFIC GAS AND ELECTRIC COMPANY**

Summary

Today's decision addresses the application of Pacific Gas and Electric Company (PG&E) to establish a new core interstate pipeline capacity planning range.

After considering all of the evidence and arguments, we do not adopt the recommendation of the core transport aggregators (CTAs) for PG&E to end its planning for and procurement of interstate pipeline capacity on behalf of the CTAs' customers. PG&E is authorized in this decision to continue that role.

Regarding PG&E's proposal to reduce the amount of interstate pipeline capacity that it holds on behalf of the core demand, we adopt a lower range than what PG&E had proposed. PG&E is authorized to maintain a core interstate pipeline capacity planning range of between 80% and 105% of forecast average annual daily core demand for the summer months of April through October, and a core interstate pipeline capacity planning range of between 100% and 115% of forecast average annual daily core demand for the winter months of November through March.

Today's decision will ensure that sufficient interstate pipeline capacity will be available year-round to serve the bundled core customers of PG&E, as well as the core customers of the CTAs.

1. Procedural Background

Pacific Gas and Electric Company (PG&E) filed the above-captioned application on June 13, 2013. PG&E's application was filed in response to Decision (D.) 12-12-006, which, among other things, directed PG&E to file an

application to propose a new core interstate pipeline capacity planning range or formula.¹ Responses and a limited protest to the application were filed.

A prehearing conference was noticed for and held on August 23, 2013. In the September 3, 2013 scoping memo and ruling (Scoping Ruling), evidentiary hearings were originally set for December 2013. The dates for the evidentiary hearings were subsequently delayed until January 2014, when four days of evidentiary hearings were held. This was followed by the filing of opening and closing briefs.

Several decisions to extend the time to resolve this proceeding were issued. (*See* D.15-08-042.) The proposed decision was then issued on September 18, 2015.

CTAC requested in its opening brief that oral argument be held before the Commission pursuant to Rule 13.13 of the Commission's Rules of Practice and Procedure. Oral argument was held on October 14, 2015.

2. Background of the Core Capacity Planning Ranges and the Core Aggregation Program in PG&E's Service Territory

Interstate pipeline capacity planning ranges for core customers were first mandated for PG&E, Southern California Gas Company (SoCalGas), and San Diego Gas & Electric Company (SDG&E) in D.04-09-022. Those planning ranges were adopted in part "to ensure that California does not face a natural gas shortage in the future." (D.04-09-022, at 2.) In D.04-09-022, the Commission

¹ D.12-12-006 was issued in response to the Petition for Modification of D.04-09-022 that was filed by the Core Transport Agent Consortium (CTAC) and Shell Energy North America (US), L.P. (Shell).

required PG&E to hold a range of 962 million cubic feet per day (MMcfd) to 1058 MMcfd of interstate pipeline capacity during the winter months for core customers. For the summer months, PG&E's interstate pipeline capacity planning range was set at 90% of the forecasted average demand for core customers.² PG&E's interstate pipeline capacity planning range includes the core demand of its bundled core customers, as well as the core demand of the customers of the core transport aggregators (CTAs). PG&E's core capacity planning range differs from SoCalGas' planning range in that SoCalGas' planning range does not include the CTA customers.

Pursuant to D.91-02-040, D.94-04-027, and D.95-07-048, the CTAs are alternative providers of natural gas to residential and small to medium business customers.³ Core end-users of gas can choose to take service from their local gas utility or from a CTA. The CTAs are responsible for procuring and ensuring delivery of natural gas to the city gate for their customers, with final delivery of the gas over the utility's local distribution system. At the time of the evidentiary hearings, the CTA customers represented about 18% to 20% of PG&E's total core natural gas demand.

CTAC and Shell subsequently filed a petition for modification of D.04-09-022 in which it requested that the Commission replace the 962 to

² For both SoCalGas and SDG&E, D.04-09-022 set the range at a minimum of each utility's annual average daily amount, and the maximum at 120% of the average daily amount. The ranges for SoCalGas and SDG&E have subsequently been revised through advice letters.

³ The statutory framework for the CTAs was subsequently added to the Public Utilities Code by Senate Bill 656 in the Statutes of 2013, Chapter 604, § 4.

1058 MMcfd winter capacity range for PG&E with a capacity range of between 100% and 120% of PG&E's forecast bundled core capacity demand.⁴ Although the Commission did not adopt the specific request of CTAC and Shell, it did reduce PG&E's winter capacity planning range by adopting an interim range of 900 to 1,000 MMcfd in D.12-12-006.⁵ This interim winter capacity planning range became effective January 1, 2013, and remains in effect until a new capacity planning range is adopted by the Commission. D.12-12-006 did not change PG&E's summer capacity planning range as set in D.04-09-022.

PG&E was directed in D.12-12-006 to file an application to propose a new core interstate pipeline capacity range or formula. The new application filing was ordered to determine "whether PG&E's core capacity planning range should be further revised in light of the lower core demand and forecasts of future core demand, as well as the policy objectives of D.04-09-022 of ensuring reliable, long term gas supplies." (D.12-12-006, at 13.)

D.12-12-006 directed that PG&E include the following in its application:

- A forecast of PG&E's core gas demand over the next 10 years;
- A statement of PG&E's historical core load from 2005 through 2012;
- A recommendation as to how PG&E plans to meet core gas demand over the next 10 years; and
- An assessment of whether PG&E believes there is sufficient interstate pipeline capacity to meet that core gas demand.

⁴ CTAC is a coalition of various CTAs, while Shell is a CTA.

⁵ In units of decatherms, this winter capacity planning range is the equivalent of between 918 and 1020 thousand decatherms per day (MDth/d).

As a result of the direction provided in D.12-12-006, PG&E filed the above-captioned application.

Under the current regulatory framework, and as required by D.04-09-022 and D.12-12-006, PG&E holds interstate pipeline capacity on behalf of all core customers, which includes the customers of the CTAs. For the winter months of November through March, PG&E is to hold a capacity planning range of between 918 to 1020 MDth/d. For the summer months of April through October, PG&E is to hold a capacity planning range of 90% of PG&E's forecasted average demand.

The cost of the interstate pipeline capacity that PG&E procures on behalf of the customers of the CTAs is passed on to the CTAs in accordance with the settlement agreed to in D.11-04-031.⁶ Under that settlement, the CTAs may elect to take long term interstate pipeline capacity on a three-time a year basis. For the interstate pipeline capacity the CTAs elect to use, they are responsible for the billed costs of the pipeline capacity at the rate billed under the contract terms.

For the interstate pipeline capacity the CTAs elect not to use, the settlement reached and adopted in D.11-04-031 establishes a transition period for the CTAs to take full cost responsibility for the unused pipeline capacity.⁷

⁶ A number of other CTA-related issues were also addressed in the settlement adopted in D.11-04-031. However, those other issues are not relevant to the outcome of this proceeding.

⁷ Before the settlement was adopted in D.11-04-031, the CTA cost responsibility for interstate pipeline capacity was set forth in D.03-12-061. D.03-12-061 at 434 provides that once the CTA market share reaches 10%, that the CTAs would then become liable

Footnote continued on next page

During the transition period from April 2012 to March 2015, PG&E's core portfolio will utilize and take cost responsibility for, up to a set amount of the aggregate capacity rejected by the CTAs for each asset and for each month in accordance with the following: (1) from April 2012 to March 2013, PG&E's core portfolio will be responsible for up to 12% of the unused capacity; (2) from April 2013 to March 2014, PG&E's core portfolio will be responsible for up to 7% of the unused capacity; (3) from April 2014 to March 2015, PG&E's core portfolio will be responsible for up to 4% of the unused capacity; and (4) from April 2015 onward, the CTAs assume full cost responsibility for all of the unused CTA capacity.⁸

Thus, if PG&E is required to continue to procure interstate pipeline capacity on behalf of the CTA customers, the CTAs will be responsible for 100% of the pipeline capacity procured on their behalf beginning in April 2015 as agreed to in the settlement adopted in D.11-04-031.

Under the current regulatory framework, the interstate pipeline capacity that is declined by the CTAs is marketed to others by PG&E on a month by month basis. The capacity that is sold off is then accounted for pursuant to PG&E's Gas Schedule G-CT. The CTAs receive a credit from the sale of that pipeline capacity. If PG&E is unable to recover the full cost of the capacity

for its pro rata share of the core transmission and storage capacity procured by PG&E on behalf of the CTAs.

⁸ The settlement in D.11-04-031 also describes the procedures that PG&E is to follow with respect to the disposition of the interstate pipeline capacity rejected by the CTAs. The net cost or benefit of the rejected capacity is to be applied by PG&E to each CTA that rejected the capacity.

through these sales, the CTAs are then responsible for paying a portion of the unrecovered cost pursuant to the schedule agreed to in D.11-04-031.

3. Proposals and Positions of the Parties

In response to D.12-12-006, PG&E is proposing that a new core interstate pipeline capacity planning range be adopted as a result of this application. PG&E proposes an interstate pipeline capacity range for total core demand of between 85% and 120% of forecast average annual daily core demand for the summer months of April through October, and between 105% and 120% of forecast average annual daily core demand for the winter months of November through March. According to PG&E, these ranges correspond to between 688 and 971 MDth/d for the months of April through October, and between 850 and 971 MDth/d for the months of November through March. PG&E's proposal represents a significant reduction from the current interim winter planning capacity range of 918 to 1020 MDth/d that was established for PG&E in D.12-12-006. PG&E proposes that the actual volumes associated with these ranges be updated every two years, through an advice letter, using the forecast loads published in the California Gas Report. PG&E also proposes to adjust its interstate pipeline capacity range holdings by April of the year following the publication of the most recent California Gas Report.

PG&E's proposal is based in part on its analysis of historic core gas demand and future core gas demand through 2023. In developing its proposed planning ranges, PG&E considered several supply options, including the use of (1) annual constant-volume firm capacity contracts; (2) shaped capacity contracts and seasonal capacity contracts; (3) additional storage capacity contracts; and (4) procurement of limited border and PG&E Citygate supplies.

PG&E contends that its proposed ranges provide the flexibility needed to reliably meet the forecasted core loads, while using various combinations of firm pipeline capacity, storage capacity and limited additional supplies. Also, the proposed ranges provide the opportunity to reduce capacity costs during lower core demand periods, while recognizing the need for reliable firm capacity and supplies during higher core demand periods.

CTAC and Shell oppose PG&E's proposal.

CTAC proposes that PG&E reduce its interstate pipeline capacity planning ranges to only reflect the pipeline capacity needed for PG&E's own bundled core customers. That is, CTAC recommends that PG&E no longer plan for and procure interstate pipeline capacity on behalf of the CTA customers. CTAC contends that since the CTAs are responsible for arranging their own gas supplies, and can utilize various transportation options of their own choosing, it does not make sense for PG&E to duplicate the CTAs' efforts. The CTAs contend that the current system increases the CTAs' interstate transportation costs.

Shell recommends PG&E be directed to reduce the amount of firm interstate capacity it holds on behalf of the CTA customers until PG&E no longer holds firm interstate capacity for the core aggregation load. Shell further recommends that as PG&E reduces the amount of firm interstate capacity it holds for the core aggregation load, that PG&E be directed to reduce and eventually eliminate the amount of firm capacity offered to CTAs under Schedule G-CT. Shell also proposes that the Commission direct PG&E to file an advice letter within 30 days after the effective date of this Commission decision, in which PG&E proposes a "crossover rate" tariff that would apply to core aggregation customers that return to PG&E bundled core service without providing six months advance notice to PG&E.

Gas Transmission Northwest LLC (GTN) is an interstate pipeline company which transports natural gas from Canada to California. GTN supports PG&E's proposal to continue the procurement of interstate pipeline capacity for total core demand. GTN is opposed to the proposals of CTAC and Shell to reduce and eliminate the amount of interstate pipeline capacity that PG&E procures on behalf of the CTAs' customers. GTN contends that the CTAs' proposals are contrary to the Commission's longstanding policy of protecting core ratepayers by providing long term, reliable gas supplies from economically priced gas basins. GTN contends that without firm pipeline capacity contracts, the interstate pipelines will pursue other alternatives to recover the costs of maintaining and operating the pipeline capacity. These alternatives include pipeline diversions to other markets, conversion to other uses, or abandonment of the facilities.

The Office of Ratepayer Advocates (ORA) supports PG&E's proposal. Although PG&E's proposal is not optimal, ORA contends it is adequate to meet core demand, and is superior to the proposed alternatives of CTAC and Shell. ORA believes that firm interstate capacity comes at a cost, and that such costs should be considered along with the reliability that is provided through a given level of capacity holdings. ORA contends that PG&E's modeling could be enhanced by using various scenarios that utilize a combination of storage, firm capacity, and city-gate purchases.

The Utility Reform Network (TURN) supports PG&E's proposal to reduce the present capacity planning ranges. TURN contends that the evidence demonstrates that in the short term, PG&E holds interstate pipeline capacity in excess of what is needed to ensure reliable service. Thus, a reduction in the planning capacity range is warranted. If the Commission continues its policy of

promoting reliability for core customers, TURN contends that the core aggregation load should be included in the utility's planning criteria for the holding of interstate pipeline capacity, and that CTAs should continue to pay for that capacity.

TURN contends, however, that PG&E's modeling of only 500 MDth/day of border supplies being available is too restrictive. TURN recommends that the Commission require PG&E to provide additional data and analysis concerning its planning criterion in PG&E's next Core Procurement Incentive Mechanism (CPIM) proceeding.

3.1. Scope of Issues

The September 3, 2013 Scoping Ruling identified four issues to be addressed in this proceeding. The first issue is whether "PG&E's interstate core capacity planning range should cover the total core demand (i.e., including both the bundled core and the core load served by the CTAs), or should PG&E's interstate core capacity planning range only cover its bundled core demand." (Scoping Ruling, at 6.) The Scoping Ruling also stated that the following five sub issues should be considered in deciding the first issue:

- (1) What decisions and settlement(s) should be considered before making a change to the core capacity planning range.
- (2) What the estimated financial impact on core bundled customers will be if the total core demand includes both the bundled core and the core load served by the CTAs, as compared to the other position that total core demand should only include bundled core customers.
- (3) Should the decision in this proceeding include the caveat about not prejudging the CTA cost responsibility issue, since that issue is to be considered in PG&E's 2014 gas transmission and storage application.

- (4) If PG&E has to plan for both core bundled and core aggregation customers, whether the CTAs should have some input in deciding what the range should be, and from where the interstate capacity is coming from.
- (5) If PG&E's core capacity planning range does not include CTA customers, how can the Commission ensure (and should the Commission be concerned) that CTAs will be able to plan for and serve their customers' gas needs by securing sufficient interstate and intrastate capacity? Should the Commission require a CTA to hold a certain amount of interstate capacity or require the CTA to hold a certain amount of interstate capacity or require the CTA to take other action? If a CTA goes out of business or terminates a customer, should PG&E be the default provider, and if so, should additional capacity be included to account for the possibility of such an event and to ensure that there are sufficient supplies to serve the returning core customer? (Scoping Ruling, at 3-4, 6-7.)

The second issue in the Scoping Ruling is whether "the core interstate pipeline capacity planning range to be adopted in this proceeding is appropriate and reasonable, and will the adopted capacity planning range provide sufficient capacity to ensure safe and reliable service." (Scoping Ruling, at 7.)

The third issue is whether "PG&E's proposed approaches (such as shaped or seasonal capacity contracts, or use of border and PG&E citygate supplies) for meeting its proposed core capacity ranges reasonable, and will it ensure adequate and reliable natural gas supplies." (Scoping Ruling, at 4, 7.)

The fourth issue is whether PG&E's proposed updating procedures for the volumes associated with the capacity range should be adopted. (Scoping Ruling, at 4, 7.)

3.2. Considerations and Arguments

At the present time, PG&E procures firm interstate pipeline capacity for all core customers, which includes the core load that is served by the CTAs. The cost of the pipeline capacity that PG&E secures for the CTAs' core load is assigned to the CTAs pursuant to the schedule adopted in D.11-04-031.

According to PG&E, the holding of this interstate pipeline capacity costs about \$38 per core customer annually, or about \$3 per month.

The fundamental issue that we face in this application is whether PG&E should be required in the future to continue the procurement of interstate pipeline capacity for the natural gas demand of the customers of the CTAs. In deciding whether PG&E's core interstate pipeline capacity planning range should be altered, a number of considerations are raised, including the issues listed in the Scoping Ruling.

We first outline the arguments for revising the current planning range, and for eliminating the requirement that PG&E procure interstate pipeline capacity on behalf of the CTA customers.

The first argument in favor of such a change is that the current method restricts or impedes the ability of the CTAs to procure and obtain natural gas for their customers in the manner they believe best suit their own needs. Under the current system, PG&E procures interstate pipeline capacity by entering into various contracts with different pipeline companies. Due to the physical location of these various pipelines, they are connected to certain gas basins. The CTAs contend that the pipeline capacity PG&E has contracted for may not meet the CTAs' needs because it limits the CTAs' choices as to which gas basins they can get their gas from, or where they can procure their gas from on any given day.

The CTAs contend that there are sufficient gas supplies, pipeline capacity, and storage, by which they can obtain the gas they need, without having to use the interstate pipeline capacity that PG&E has procured on the CTAs' behalf. Depending on market conditions, the CTAs contend that they may, in a more cost effective manner, be able to fulfill their gas needs by using other pipeline routes and gas basins, or other arrangements such as purchasing the gas at PG&E's citygate.

Under the core aggregation program, the CTAs are responsible for having gas supplies available for use by their customers. Since they already have this responsibility, the CTAs contend there is no good reason why PG&E should hold firm interstate pipeline capacity on the CTA customers' behalf. If the CTAs are obligated to continue paying for 100% of the interstate pipeline capacity procured by PG&E on their behalf, the CTAs contend they will not be able to compete with PG&E because the CTAs are essentially paying twice for interstate transportation costs. The CTAs contend that this increases the CTAs' costs, and causes competitive harm to the gas market.

Unlike PG&E, the CTAs point out that SoCalGas is not required to procure interstate pipeline capacity for the CTA customers. The CTAs contend that eliminating the requirement that PG&E procure interstate pipeline capacity on behalf of the CTA customers would be consistent with SoCalGas' practices.

The second argument for making such a change is that there is currently an abundance of interstate pipeline capacity, gas supplies, and gas storage. The CTAs contend that due to this excess, they can readily obtain their gas supplies from the open market without the need for PG&E to procure interstate pipeline capacity on behalf of the CTAs' customers.

The third argument for changing the present system is the contention of the CTAs and TURN that PG&E's current core planning range is too conservative because too much capacity is being held relative to the abundant pipeline capacity, gas supplies, and storage, in the gas marketplace. TURN contends that this results in core customers subsidizing noncore customer reliability through the holding of too much interstate pipeline capacity, which benefits noncore customers by reducing the probability that noncore customers' gas supplies will be diverted in the event of a gas curtailment. This excess capacity is then sold to noncore customers, which minimizes the need for noncore curtailments.

The fourth argument is that there are sufficient safeguards already in place, or which can be created, to protect PG&E and PG&E's bundled core customers from the risk that the CTAs will not be able to fulfill their obligations to their customers. The CTAs point out they are required to procure natural gas for their customers. In addition, there are safeguards in the Public Utilities Code which requires the CTAs to be registered and bonded.⁹ The CTAs also contend their customers have contractual remedies should the CTAs fail to perform. The CTAs also contend that the additional safeguard of creating a cross-over rate will prevent the costs of a former CTA customer, who returns to utility service, from being shifted to the utility and its customers. The CTAs also contend that they must meet certain gas rules of PG&E, including the firm winter capacity requirement, and must enter into an agreement with PG&E before it can provide core aggregation service.

⁹ Unless otherwise stated, all code section references are to the Public Utilities Code.

The fifth argument is that the CTAs contend that none of the prior decisions regarding core aggregation restricts the Commission from making a change to PG&E's holding of pipeline capacity on behalf of the CTAs. The CTAs point out that the CTA Settlement Agreement adopted in D.11-04-031 specifically provides for the following:

One or more settlement parties may wish to file a petition or application seeking to modify Commission decisions setting storage and pipeline capacity holding levels for core customers on the PG&E system. Notwithstanding any other provision of this settlement, the parties agree that seeking such relief by a party, and granting such relief by the Commission, will not violate this settlement. (D.11-04-031, Appendix B, at 2.)

As a result of that provision, the CTAs filed their petition to modify D.04-09-022, which resulted in D.12-12-006. D.12-12-006 then required PG&E to file the application before us to propose a new core interstate pipeline capacity planning range or formula.

The following are the arguments for continuing the requirement that PG&E hold interstate pipeline capacity for both its core bundled customers and the CTAs' customers.

The first argument is that the current method ensures continuing reliability of interstate gas supplies through the reservation of sufficient firm interstate pipeline capacity to serve all core customers in PG&E's service territory. PG&E contends that D.04-09-022 directed the utilities to have adequate pipeline capacity to ensure continuing supplies of interstate gas supplies. PG&E contends that retaining the current framework is an insurance policy against possible future market constraints, and bolsters reliability of service and price stability for core customers. PG&E and GTN contend that contracting for firm interstate

pipeline capacity will ensure supply security and reliability from various gas supply basins. In the absence of such rules, PG&E and GTN contend that reliability of service for core customers will be compromised, which will increase the risk of supply disruptions and diversions, and increase costs.

PG&E contends that the CTAs prefer to purchase natural gas at points such as PG&E's citygate so as to avoid having to pay for the cost of the infrastructure needed to transport the gas to the delivery point. PG&E also contends that maintaining the current method will not interfere with the CTAs' ability to differentiate their gas service through the offering of various pricing options and products.

GTN contends that PG&E should continue to be required to hold firm interstate pipeline capacity to provide backstop service to customers who may leave a CTA to return to PG&E bundled core service. This will protect PG&E's core gas customers from unforeseen market changes.

The CTAs contend that if PG&E is required to continue holding interstate pipeline capacity for the CTA customers, then the CTAs should be part of the group that provides input on PG&E's planning and procurement decisions regarding interstate pipeline capacity.

The second argument in favor of maintaining the current method is also related to reliability. PG&E contends that if PG&E no longer needs to procure interstate pipeline capacity on behalf of the CTA customers, that this will undermine reliability to all core customers because this unused capacity will result in the interstate pipeline operators diverting capacity to serve upstream customers who are willing to enter into firm commitments. According to GTN, such a diversion could result in that capacity being lost for several years because of new contract commitments. This problem could become more acute if the

number of CTA customers continue to increase, and PG&E is not required to procure interstate pipeline capacity on behalf of the CTA customers. PG&E and GTN contend that without firm pipeline capacity rights, there is a risk that the pipeline capacity will be lost to upstream markets or for other purposes.

The third argument in favor of maintaining the current method is that PG&E is the default supplier of natural gas, and has the obligation to serve all customers who want service. If PG&E is no longer required to procure interstate pipeline capacity on behalf of the CTA customers, this will result in the loss of firm capacity and PG&E may encounter difficulties in serving all customers if market conditions deteriorate. These difficulties could include paying higher prices than if PG&E retained a cushion of firm interstate pipeline capacity.

3.3. Discussion

The fundamental issue in this proceeding is whether the current process of requiring PG&E to plan for and procure interstate pipeline capacity on behalf of the CTAs' customers should be continued, revised, or eliminated.

In response to D.12-12-006, PG&E proposes it continue to plan for and procure interstate pipeline capacity on behalf of the CTAs' customers, but that the total core capacity planning range be reduced from the current level. PG&E is proposing an interstate pipeline capacity range for total core demand of between 85% and 120% of forecast average annual daily core demand for the months of April through October (which corresponds to between 688 and 971 MDth/d), and between 105% and 120% of forecast average annual daily core demand for the months of November through March (which corresponds to between 850 and 971 MDth/d). This is in contrast to the current requirement that PG&E have a summer capacity planning range of 90% of forecasted average demand, and a winter capacity planning range of between 918 and 1020

MDth/d. PG&E believes that the current regulatory structure should continue so that reliable gas supplies can continue to flow in the event gas supplies and market conditions deteriorate.

The CTAs recommend that the current requirement of having PG&E plan for and procure interstate pipeline capacity on behalf of the CTAs' customers be eliminated entirely on a going forward basis. The CTAs contend that PG&E should not hold interstate pipeline capacity on behalf of the CTAs' customers because there is currently an excess of gas supplies and interstate pipeline capacity which will continue into the future. The CTAs contend that the gas market should be relied on to provide the necessary gas supplies. If, however, the Commission decides to continue the current requirement, the CTAs recommend that the planning capacity levels be set lower than what PG&E has proposed.

ORA and TURN both support PG&E's proposal to reduce the core capacity planning range.

TURN contends that PG&E's proposed planning range is still too high, but recommends its adoption on an interim basis until PG&E presents additional justification for that planning range in PG&E's CPIM proceeding. In the event the Commission eliminates the requirement that PG&E plan for and procure interstate pipeline capacity for the CTAs' customers, TURN contends it makes logical sense to allow PG&E to pursue the same kind of flexibility that the CTAs will have, and that PG&E not be required to maintain any capacity planning range.

In deciding the outcome of this proceeding, we have considered all of the evidence from the evidentiary hearings, as well as the arguments of the parties and the issues listed in the Scoping Ruling.

As directed in D.12-12-006, our foremost concern is to ensure the continuing reliability of natural gas supplies and service into California. Reliability of natural gas transportation service and gas supplies at reasonable prices was one of the key drivers for the Commission's opening of Order Instituting Rulemaking (R.) 04-01-025, which led to the adoption of D.04-09-022. R.04-01-025 was initiated over concerns about insufficient natural gas supplies and infrastructure to meet the future gas needs of California's residential and business customers. As a result, D.04-09-022 ordered the California gas utilities to maintain interstate pipeline capacity within certain specified planning ranges.

The purpose of PG&E's core capacity planning range is to have sufficient firm transportation capacity in place to meet core gas needs. This firm pipeline capacity helps to guard against fluctuations in the cost of gas on the spot market, and is a relatively small cost to pay for gas transportation reliability. (See D.04-09-022 at 31.)

Due to the current environment of abundant interstate pipeline capacity and gas supplies available to California, as well as sufficient gas storage, the CTAs contend that PG&E should no longer procure pipeline capacity on behalf of the CTAs' customers. Under the current method, and under PG&E's proposal to reduce the amount of interstate pipeline capacity it currently holds, the CTAs would still be obligated to pay PG&E for the interstate pipeline capacity procured on its behalf. The CTAs contend that market forces should be allowed to operate, instead of the CTAs having to pay for pipeline capacity that they might not need or want. The CTAs also argue that if PG&E is allowed to continue to procure pipeline capacity on the CTAs' behalf, that this will interfere with the way in which CTAs can market their service offerings to customers.

The CTAs are of the view that the capacity that PG&E is required to plan for and procure for, amounts to an expensive insurance policy that results in excessive pipeline transportation costs and provides little or no supply reliability. Shell contends that because PG&E procures the pipeline capacity, the CTAs are locked-in to procuring gas from the supply basins from which PG&E has procured pipeline capacity. The CTAs contend that PG&E and the CTAs can obtain more cost effective gas supplies if they are allowed more flexibility rather than being tied to the pipeline capacity contracts that PG&E has procured. Since the CTAs are required to have their customers' gas supplies at the citygate, the CTAs contend that they are essentially paying twice for pipeline capacity that they might not need.

PG&E and others contend that this current surplus will not last indefinitely, and that the gas transportation and gas supply situation in California can quickly change.

We do not agree with the CTAs' argument that they are paying twice for this pipeline capacity. The CTAs may elect to use some or all of the interstate pipeline capacity procured on their behalf by PG&E, in which case the CTAs are not paying twice to transport gas. In addition, the pipeline capacity the CTAs elect not to use is then marketed by PG&E to those who may need gas transportation. The CTAs then receive a credit for a portion of the resale of this unused CTA pipeline capacity. Such a credit reduces the financial impact on the CTAs. For those same reasons, we are not persuaded that PG&E's procurement of pipeline capacity for the CTAs interferes with the CTAs' ability to market or tailor their service offerings to potential customers. The CTAs are free to market their service offerings in any way they want so long as their offerings meet the provisions of §§ 980 to 989.5.

The CTAs make a compelling argument that they should be free to purchase gas supplies and gas transportation in the manner that best fits the CTAs' objectives. Instead of having to use certain pipeline transportation arrangements the CTAs may not want or need, they contend the gas they need can be obtained elsewhere at a lower cost due to the abundance of excess pipeline capacity and natural gas supplies.

However, we are concerned from a safety and reliability standpoint of the CTAs' ability to serve their customers in the event of future price fluctuations or turmoil in the gas market. The availability of gas to serve California demand was the genesis for D.04-09-022, which led to the imposition of the core pipeline capacity planning ranges. The rulemaking (R.04-01-025) in which D.04-09-022 was issued, was opened to ensure that California does not face a natural gas shortage in the future. In addition, R.04-01-025 was opened to further the state's goal in the Energy Action Plan of ensuring adequate, reliable, and reasonably priced natural gas supplies, including prudent reserves. (*See* D.04-09-022, at 2.) Having sufficient pipeline capacity on hand ensures that gas can be transported from out-of-state into California at a reasonable cost. From a safety perspective, the gas used to serve customers provides heat and comfort, as well as for cooking needs. Although the cost to secure this type of pipeline capacity insurance comes at a cost, this cost is a reasonable considering the value of having pipeline capacity when you need it.

The CTAs argue that having firm pipeline capacity does not confer reliability because one must still procure the gas supplies, which may only be available at a high price. However, this argument of the CTAs ignore the value of having reasonably priced firm pipeline capacity to transport that gas.

During the evidentiary hearings, no one disputed that there is currently an abundance of interstate pipeline capacity into California, and that there are plentiful gas supplies. The CTAs take the position that they will be able to obtain the gas supplies that they need when they need them. Whether or not the CTAs have contractual arrangements in place, or if they plan to secure such arrangements, was not disclosed during the evidentiary hearings. However, this current abundance may not always be the case. One cannot predict with certainty what will occur in the future with respect to the California gas markets. Such things as unusually cold weather or pipeline disruptions, as has been experienced in the past, could cause natural gas prices and pipeline capacity prices to spike.

The problem that we have with the CTAs' approach is twofold. First, as pointed out by PG&E, if PG&E is relieved of the requirement to procure interstate pipeline capacity on behalf of the CTA customers, there are currently no specific requirements in place to ensure that the CTAs will have sufficient interstate pipeline capacity, gas supply and delivery contracts, or other arrangements, in place to serve their customers.

The CTAs take the position that market forces will solve their gas needs, and contend that they have the same firm supply obligation as PG&E. The CTAs imply they will continue to serve their customers because of the contractual obligations they have with their customers, and because of the various tariffs and rules governing the CTAs' gas delivery, gas balancing, registration, credit, and consumer protection requirements. However, without some assurance that the CTAs can serve their customers in the event of constraints in the markets, we are unwilling to relieve PG&E of its obligation to procure interstate pipeline capacity on behalf of the CTAs' customers.

Although the Commission could leave this to market forces to sort out, such an approach could become a big problem if the markets for gas pipeline capacity and gas supplies become constrained, and the CTAs have to pay significantly higher prices for pipeline capacity and gas supplies. As the Shell witness testified, gas will still be available during market constraints, but such availability will be tied to the price one is willing to pay. If a CTA is unwilling to pay the higher price, such a scenario could cause some CTAs to stop providing service to their customers, which will result in a number of customers being returned to PG&E. If PG&E is no longer required to procure pipeline capacity for the CTAs' customers, and has not planned for the return of the customers of the CTAs, PG&E and its ratepayers will likely have to pay much higher prices during times of market constraints to secure the gas supplies and pipeline capacity to serve those returning customers. Unless the Commission has some assurances that the CTAs have adequate pipeline capacity and supply, PG&E's procurement of interstate pipeline capacity on behalf of the CTAs' customers should not end.

The second problem we have with the CTAs' proposal is that PG&E remains the default provider of gas service in the event the CTAs' customers return to PG&E. (*See* § 328.2.) As mentioned above, if PG&E is no longer required to procure interstate pipeline capacity on behalf of the CTAs' customers, this will result in PG&E contracting for less firm pipeline capacity and gas supplies over time. As a result, PG&E may not have sufficient pipeline capacity and gas supplies on hand if the customers of the CTAs are involuntarily returned to PG&E because the CTAs can no longer serve them during gas market disruptions and constraints. In addition, as the GTN testimony demonstrates, if PG&E reduces its interstate pipeline capacity because it is no longer has to plan

for customers of the CTAs, the availability of pipeline capacity may be reduced as the pipeline companies seek to use their pipeline assets to serve other markets. Although the CTAs contend that this is unlikely to occur, this could become a problem for PG&E as the default supplier, and all of its ratepayers, during gas market disruptions and constraints. Under such circumstances, PG&E, and its ratepayers, could be forced to pay much higher prices for scarce pipeline capacity and gas supplies in order to serve the returning customers of the CTAs.

To avoid burdening PG&E and its ratepayers with possible much higher costs, the Commission should retain the requirement that PG&E continue to plan for and procure pipeline capacity for the CTAs' customers until the CTAs provide assurances of their ability to serve their customers. Support for maintaining the requirement that PG&E continue to procure sufficient pipeline capacity for the customers of the CTAs is found in §§ 981, 983.5, 985, and 380. We first discuss §§ 981, 983.5, and 985.

The CTA registration requirement in § 981(a)(9) and (a)(10) provides that as a precondition to registration, the CTAs are to provide proof of financial viability, and proof of technical and operational ability.

Section 983.5 provides for the enforcement and regulatory actions that the Commission is authorized to take with respect to the CTAs. Subdivision (d) of § 983.5 states:

“If a customer of a core transport agent is involuntarily returned to service provided by a gas corporation, any reentry fee imposed on that customer that the commission deems is necessary to avoid imposing costs on other customers of the gas corporation shall be the obligation of the core transport agent, except in the case of a customer returned due to default in payment or other contractual obligations or because the customer's contract has expired. As a condition of its registration, a core transport agent shall post a bond or

demonstrate insurance sufficient to cover those reentry fees, including reentry fees for customers returned in the event of the core transport agent becoming insolvent.”
(Emphasis added.)¹⁰

Section 985 sets forth minimum standards for the following: confidentiality; physical disconnects and reconnects; change in providers; written notices; billing; meter integrity; customer deposits; and additional protections. Section 985 also directs the Commission to adopt rules that implements the minimum standards set forth in that code section. In addition, § 985(h) provides that the Commission may adopt rules for CTAs that among other things, provide for “additional core gas consumer protection standards that are in the public interest.”

We also note that the Commission and the Legislature have taken steps in the analogous situation of requiring electric service providers to adhere to resource adequacy requirements. (See § 380(a) and (k); D.06-06-064; D.13-06-064.) The electric service providers are third party suppliers of electricity, whereas the

¹⁰ The CTAs have proposed in this proceeding that the reentry fee for customers returning to PG&E could be modeled and designed after a crossover rate that will make PG&E and its core bundled customers financially indifferent for providing service to a returning customer. The CTAs propose that this crossover rate cover the incremental costs incurred by PG&E to provide service to those returning customers over and above the costs applicable to existing core procurement customers. The CTAs point to PG&E’s Gas Schedule G-CPX as a possible model. PG&E contends that the reentry fee or crossover rate will not guarantee that PG&E can provide pipeline capacity on behalf of those returning customers if the capacity markets are constricted so that there is little or no pipeline capacity to be purchased. However, PG&E acknowledges that if a crossover rate is adopted, that such a rate should be modeled after SoCalGas’ G-CPNRC and G-CPRC tariffs.

CTAs are third party suppliers of gas. Under the resource adequacy requirements, each load serving entity, including electric service providers, is required to provide proof to the Commission that it has procured sufficient capacity resources to serve its customers. This resource adequacy requirement ensures that the electric service provider has adequate reserves to meet its customers' load. Having a similar requirement in place for the CTAs makes sense in that it will ensure that the CTAs have sufficient resources to serve their customers. Such a requirement should be in place before PG&E is relieved of its obligation of planning for pipeline capacity on behalf of the customers of the CTAs.

As the testimony shows, the number of end users served by CTAs has been growing in PG&E's service territory. In order to ensure that the customers served by these CTAs have the financial and operational ability to serve their customers, such safeguards should be in place before PG&E is relieved of its obligation to plan for and procure pipeline capacity on behalf of the CTAs' customers.

For all of the above reasons, we retain the requirement that PG&E continue to plan for and to procure pipeline capacity on behalf of the customers of the CTAs and deny the CTAs' request that PG&E discontinue this requirement on a going forward basis. It is not appropriate at this time to discharge PG&E of its responsibility to hold pipeline capacity on behalf of the customers of the CTAs until there are rules in place for ensuring that the CTAs have sufficient resources to meet their customers' obligations. Continuing to require PG&E to plan for and to procure pipeline capacity on behalf of the CTAs' customers will ensure that PG&E, as the default provider, will have sufficient pipeline capacity to serve all of its core customers, including any returning customers of the CTAs.

Since this application only involves PG&E's pipeline capacity planning range, we do not take any action in this proceeding on the planning ranges authorized for SoCalGas and SDG&E.

The next issue to resolve is whether PG&E's proposal to reduce its pipeline capacity holdings should be approved or not. PG&E proposes to reduce the current pipeline capacity holdings from what was previously authorized in D.12-12-006 and D.04-09-022. As authorized in D.04-09-022, PG&E's currently authorized pipeline capacity planning range for the summer months is 90% of the forecasted average demand. As authorized in D.12-12-006, PG&E's currently authorized pipeline capacity planning range for the winter months is 900 to 1000 MMcfd, the equivalent of 918 to 1020 MDth/d.

In response to Ordering Paragraph 2 in D.12-12-006 directing PG&E to propose a new core interstate pipeline capacity planning range or formula, PG&E proposes in this application to establish the interstate pipeline capacity planning range during the summer months at between 85% and 120% of forecast average annual daily core demand, which corresponds to between 688 and 971 MDth/d. For the winter months, PG&E proposes a pipeline capacity planning range of between 105% and 120% of forecast average annual daily core demand, which corresponds to between 850 and 971 MDth/d. PG&E also proposes to update the capacity volumes associated with these ranges through advice letter filings every two years, based on the forecast loads published in the California Gas Report. In addition, PG&E proposes to adjust its interstate pipeline capacity holdings by April of the year following the publication of the most recent California Gas Report.

If the Commission does not adopt ORA's pilot proposal to create a new customer class that has aspects of both a core and non-core customers, ORA agrees with PG&E's reduction to its pipeline capacity planning ranges.

TURN recommends that the Commission adopt PG&E's proposal regarding its pipeline capacity planning range on an interim basis. TURN contends that PG&E's analysis of its planning ranges does not optimize utilization of its storage and pipeline capacity assets based on unit costs, and that it does not fully examine the potential available daily spot market supplies at the border. TURN recommends that the Commission order PG&E to provide more data and analysis concerning the potential availability of spot market supplies at the border, and that PG&E submit an application concerning the performance of the CPIM following the conclusion of the 2014-2015 CPIM year.

TURN also contends that if PG&E is allowed to hold excess capacity, that this will benefit non-core customers when PG&E sells its excess pipeline capacity into the market. Instead of actively entering into firm pipeline capacity contracts with interstate pipelines, noncore customers have the option of purchasing this excess capacity when PG&E markets this capacity on the open market.

The CTAs are opposed to having PG&E continue to plan for and procure interstate pipeline capacity on behalf of the customers of the CTAs. The CTAC witness' testimony takes issue with how PG&E's model developed its capacity planning proposal. CTAC contends that the model optimizes sendout, but does not optimize the supply portfolio from an economic point of view. If the Commission does not adopt the CTAs' recommendations to alter PG&E's role, CTAC recommends that PG&E's proposed capacity planning ranges should be reduced below the levels that PG&E is proposing, and be set at not more than 100 percent of PG&E's bundled core load. CTAC also recommends that if PG&E

continues to plan for and procure pipeline capacity for the CTAs' customers, that the CTAs should be involved in the review of the contracts that PG&E plans to procure.

The current abundance of pipeline capacity and gas supplies suggests that PG&E can readily access this additional capacity and gas supplies during different times of the year, which merits consideration of whether PG&E's planning range should be revised even lower than what PG&E has proposed. However, this availability of excess pipeline capacity and excess gas supplies needs to be carefully balanced against the reliability concerns expressed in R.04-01-025 and D.04-09-022, the possibility that certain market events could cause the prices for additional capacity and gas supplies to spike, and to achieve an optimal balance of having sufficient pipeline capacity at a reasonable cost.

Given all of the above concerns that the parties and the Commission have expressed, we want to ensure that core customers have sufficient pipeline capacity and availability to gas supplies in order to serve these customers at all times of the year at a reasonable cost. If we reduce the planning capacity range too low, we run the risk that PG&E will have insufficient pipeline capacity. If we set it too high, then PG&E will be holding more pipeline capacity than it may actually need.

With all of these considerations in mind, we will authorize PG&E to reduce its summer (April through October) pipeline capacity planning range to between 80% and 105% of forecast average annual daily core demand, and for the winter months (November through March), we will authorize a pipeline capacity planning range of between 100% and 115% of forecast average annual daily core demand. These adopted ranges recognize the current availability of pipeline capacity and gas supplies, while ensuring that PG&E secures sufficient

pipeline capacity year-round, and at a reasonable cost, to serve all of the core gas demand.

We decline, for the following reasons, to adopt the CTAC recommendation that the CTAs be allowed to review the pipeline contracts that PG&E is planning to enter into. Although PG&E is continuing in its role to procure interstate pipeline capacity on behalf the CTAs' customers, the CTAs are competitive providers of gas. Allowing the CTAs to review the pipeline transportation contracts that PG&E is planning to enter into is essentially allowing your competitor to view the terms being offered to your competition. This is unlike the role that ORA and TURN play in the review of these pipeline contracts, neither of whom is in the business of selling gas to end-use customers.

Within 45 days, PG&E shall be ordered to file a Tier Two advice letter to implement these new capacity planning ranges for all of the core customers on PG&E's system.

We also adopt PG&E's proposal to file an advice letter to update the capacity volumes associated with the capacity ranges once every two years based on the forecast loads published in the latest California Gas Report forecast.¹¹ This advice letter shall be a Tier Two advice letter, and the first advice letter shall be filed with PG&E's advice letter implementing the new capacity planning ranges.

Since the core load in PG&E's service territory changes over time, we also adopt PG&E's proposal that it be allowed to adjust its capacity holdings by April

¹¹ The forecasts of customer demand are provided in the California Gas Report usually issued in July of even-numbered years. The historical customer demand is provided in the California Gas Report issued in odd-numbered years.

1st of the year following the publication of the most recent California Gas Report forecast. This shall also take place through a Tier Two advice letter. Such a procedure to adjust the capacity holdings is reasonable given the changes in core load that may take place, and the resources of the parties and the Commission. We do not want to be placed in the situation of constantly reviewing the capacity planning ranges that PG&E plans for and procures on behalf of the CTAs' customers. For that reason, we do not adopt the recommendations of the parties that the planning ranges, and the modeling for the planning ranges, be revisited in the CPIM or in some other future proceeding. Under the Tier Two advice letter process, parties can raise objections to PG&E's advice letter filing.

In our view, the simple solution is for the CTAs to meet the intent of the code sections applicable to the CTAs by providing sufficient proof of their operational and financial abilities, and "additional core gas consumer protection standards that are in the public interest." (§ 985(h).) Once this is accomplished, and the Commission is assured that the CTAs can continue serving their customers during gas market uncertainties without shifting the costs of serving those customers back onto PG&E and its ratepayers, the Commission can take steps to relieve PG&E of planning for and procuring pipeline capacity for the CTAs' customers. If such circumstances change in the future, and the CTAs can provide these kinds of assurances, a petition to modify this decision can then be filed to eliminate the requirement that PG&E plan for and procure pipeline capacity on behalf of the CTAs' customers.

Both ORA and TURN have recommended that the Commission examine the differences between a core and non-core gas customer. ORA recommends that a pilot program be created to establish a new customer class that retains aspects of both a core and non-core customer, and that a customer would have to

affirmatively elect to take part in such a program. Under ORA's proposal, such a customer would be provided with a certain level of reliability, and would not be subject to gas curtailment. TURN has similarly suggested that the Commission revisit the distinctions between core and noncore customers, and the priority of service and gas curtailments that would occur, particularly with respect to electric generators who no longer have the ability to fuel switch.

We decline to pursue the recommendations of ORA and TURN in this proceeding because PG&E's application is not looking into the different levels of service for the utilities' gas customers and gas curtailment priorities. In addition, the Commission is not in a position at this time to undertake a comprehensive review in a separate rulemaking of the distinctions between core and noncore customers, and the curtailment and reliability of service issues.

As there are no further issues to address in this application, this proceeding should be closed.

4. Comments on Proposed Decision

The proposed decision of John S. Wong in this matter was mailed to the parties in accordance with §311, and comments were allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening comments were filed on October 8, 2015, and reply comments were filed on October 13, 2015. Those comments have been reviewed and considered, and appropriate changes have been made to the proposed decision.

4. Assignment of Proceeding

Michel P. Florio is the assigned Commissioner and John S. Wong is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. PG&E's application was filed in response to D.12-12-006, which directed PG&E to file an application to propose a new core interstate pipeline capacity planning range or formula.
2. Interstate pipeline capacity planning ranges for core customers were first mandated for PG&E, SoCalGas, and SDG&E in D.04-09-022.
3. These interstate pipeline capacity planning ranges were adopted in part to ensure that California does not face a natural gas shortage in the future.
4. PG&E's core capacity planning range differs from SoCalGas' planning range in that SoCalGas' planning range does not include the CTA customers.
5. The CTAs are alternative providers of natural gas, and core end-users of gas can choose to take service from their local gas utility or from a CTA.
6. The CTAs are responsible for procuring and ensuring delivery of natural gas to the citygate for their customers, with final delivery of the gas over the utility's local distribution system.
7. At the time of the evidentiary hearings, the CTA customers represented about 18% to 20% of PG&E's total core gas demand.
8. Following the petition for modification of D.04-09-022 to change PG&E's interstate capacity planning range, the Commission adopted an interim capacity planning range for the winter months of November through March of between 100% and 120% of PG&E's forecast of bundled core capacity demand, and retained the capacity planning range for the summer months of April through October of 90% of the forecasted average demand.
9. PG&E's interstate pipeline capacity planning range includes the core demand of its bundled core customers, as well as the core demand of the CTA customers.

10. D.12-12-006 directed PG&E to file its application to propose a new core interstate pipeline capacity range or formula, and that the proposal should consider the policy expressed in D.04-09-022 of ensuring reliable, long term gas supplies, as well as historical core gas demand and future forecasts of core gas demand.

11. The cost of the interstate pipeline capacity that PG&E procures on behalf of the customers of the CTAs is passed on to the CTAs in accordance with the settlement agreed to in D.11-04-03.

12. The interstate pipeline capacity that is declined by the CTAs is marketed to others by PG&E, and accounted for through PG&E's Gas Schedule G-CT.

13. In this application, PG&E is proposing an interstate pipeline capacity range for total core demand of between 85% and 120% of forecast average annual daily core demand for the summer months of April through October (688 to 971 MDth/d), and between 105% and 120% of forecast average annual daily core demand for the winter months of November through March (850 to 971 MDth/d).

14. PG&E's proposal for the winter capacity planning range of 850 to 971 MDth/d is a significant reduction from the current interim winter capacity planning range of 918 to 1,020 MDth/d that was established for PG&E in D.12-12-006.

15. The CTAs propose that on a going forward basis that PG&E no longer plan for and procure interstate pipeline capacity on behalf of the CTA customers.

16. The Scoping Ruling identified four issues to be addressed in this proceeding.

17. PG&E's holding of the interstate pipeline capacity for all core customers amounts to about \$38 per core customer annually, or about \$3 per month.

18. Reliability of natural gas transportation service and gas supplies at reasonable prices was one of the key drivers for the Commission's opening of R.04-01-025, which led to the adoption of D.04-09-022.

19. The purpose behind having PG&E's core capacity planning range is to have sufficient firm transportation capacity in place to meet core gas needs in PG&E's service territory, which helps guard against fluctuations in the cost of gas on the spot market.

20. The cost of firm pipeline capacity is a relatively small cost to pay for gas transportation reliability.

21. Instead of having to use PG&E pipeline transportation arrangements the CTAs might not want, the CTAs may be able to obtain the gas they need at the citygate at a lower overall cost.

22. Having sufficient pipeline capacity on hand ensures that gas can be transported from out-of-state into California at a reasonable cost.

23. Natural gas is used to provide heat and comfort, and for cooking needs.

24. No one disputed at the evidentiary hearings that there is currently an abundance of interstate pipeline capacity into California, and that there are plentiful gas supplies.

25. Although the CTAs take the position that they will be able to obtain the gas supplies they need when they need them, the CTAs did not disclose whether they have contractual arrangement in place, or if they plan to secure such arrangements.

26. Unusually cold weather or pipeline disruptions, as has been experienced in the past, could cause natural gas prices and pipeline capacity prices to spike.

27. Although gas will still be available during market constraints, such availability will be tied to the price one is willing to pay.

28. If a CTA is unwilling to pay the higher price, such a scenario could cause some CTAs to stop providing service to their customers, which will result in a number of customers being returned to PG&E.

29. If PG&E is no longer required to procure pipeline capacity for the CTAs' customers, and has not planned for the return of the customers of the CTAs, PG&E and its ratepayers will likely have to pay much higher prices during times of market constraints to secure the gas supplies and pipeline capacity to serve the returning customers of the CTAs.

30. If PG&E is no longer required to procure interstate pipeline capacity on behalf of the CTAs' customers, this will result in PG&E contracting for less firm pipeline capacity and gas supplies over time, which may result in PG&E not having sufficient pipeline capacity and gas supplies on hand if the customers of the CTAs are involuntarily returned to PG&E.

31. The Commission and the Legislature have taken steps in the analogous situation of requiring electric service providers to adhere to resource adequacy requirements to ensure that third party suppliers of electricity have adequate reserves to meet their loads.

32. The availability of excess pipeline capacity and excess gas supplies needs to be carefully balanced against the reliability concerns expressed in R.04-01-025 and D.04-09-022, the possibility that certain market events could cause the prices for additional capacity and gas supplies to spike, and to achieve an optimal balance of having sufficient pipeline capacity at a reasonable cost.

33. The adopted ranges for PG&E's interstate pipeline capacity ranges recognize the current availability of pipeline capacity and gas supplies, while ensuring that PG&E secures sufficient pipeline capacity year-round, and at a reasonable cost, to serve all of the core gas demand.

34. Allowing the CTAs to review the pipeline transportation contract that PG&E is planning to enter into is essentially allowing your competitor to view the terms being offered to your competition.

35. The core load in PG&E's service territory changes over time.

36. The Commission is not in a position at this time to undertake a comprehensive review in a separate rulemaking of the distinctions between core and noncore customers, and the curtailment and reliability of service issues.

Conclusions of Law

1. In deciding the outcome of this proceeding, our foremost concern is to have continuing reliability of natural gas service into California.

2. The current abundance of interstate pipeline capacity and gas supplies into California may not always be the case, and one cannot predict with certainty what will occur in the future with respect to the California gas markets.

3. If PG&E is relieved of the requirement to procure interstate pipeline capacity on behalf of the CTA customers, there are currently no requirements in place to specifically ensure that the CTAs will have sufficient interstate pipeline capacity, gas supply and delivery contracts, or other arrangements, in place to serve their customers.

4. Unless the Commission has some assurances that the CTAs have adequate pipeline capacity and supply, PG&E's procurement of interstate pipeline capacity on behalf of the CTAs' customers should not end.

5. PG&E remains the default provider of gas service in the event the CTAs' customers return to PG&E.

6. Support for maintaining the requirement that PG&E continue to procure sufficient pipeline capacity for the customers of the CTAs is found in §§ 981, 983.5, 985, and 380.

7. The CTA registration requirement in § 981(a)(9) and (a)(10) provides that as a precondition to registration, the CTAs are to provide proof of financial viability, and proof of technical and operational ability.

8. Section 983.5(d) provides, in part, that as a condition of registration, the CTA shall post a bond or demonstrate insurance sufficient to cover the reentry fees for customers returned to the default provider in the event the CTA becomes insolvent.

9. Section 985(h) provides that the Commission may adopt rules for the CTAs that among other things, provide for additional core gas consumer protection standards that are in the public interest.

10. Section 380 provides, in part, that electric service providers are to adhere to resource adequacy requirements.

11. The requirement that PG&E continue to plan for and procure pipeline capacity on behalf of the customers of the CTAs should continue until there are rules in place for ensuring that the CTAs have sufficient resources to meet their customers' obligations.

12. Continuing to require PG&E to plan for and to procure pipeline capacity on behalf of the CTAs' customers will ensure that PG&E, as the default provider, will have sufficient pipeline capacity to serve all of its core customers, including any returning customers of the CTAs.

13. Today's decision does not take any action on the planning ranges authorized for SoCalGas and SDG&E.

14. The current abundance of pipeline capacity and gas supplies suggest that PG&E can readily access this additional capacity and gas supplies during different times of the year, which merits consideration of whether PG&E's planning range should be revised even lower than what PG&E has proposed.

15. PG&E should be authorized to file a Tier Two advice letter to reduce its April through October (summer) pipeline capacity planning range to between 80% and 105% of forecast average annual daily core demand, and for November through March (winter) a pipeline capacity planning range of between 100% and 115% of forecast average annual daily core demand.

16. CTAC's recommendation that the CTAs be allowed to review the pipeline contracts that PG&E is planning to enter into is not adopted.

17. PG&E should be authorized to file a Tier Two advice letter to update the capacity volumes associated with the capacity ranges once every two years based on the forecast loads published in the latest California Gas Report forecast, and the first such advice letter should be filed with PG&E's advice letter implementing the new capacity planning ranges.

18. PG&E should be authorized to file a Tier Two advice letter to adjust its capacity holdings by April 1st of the year following the publication of the most recent California Gas Report forecast.

19. The Commission should not be placed in the situation of constantly reviewing the capacity planning ranges that PG&E plans for and procures on behalf of the CTAs' customers.

20. The recommendations of the parties that the planning ranges, and the modeling for the planning ranges, be revisited in the CPIM or in some other future proceeding, is not adopted.

21. The recommendations of ORA and TURN that the Commission look into the different levels of service for the utilities' gas customers and gas curtailment priorities is not adopted.

O R D E R**IT IS ORDERED** that:

1. Effective today, Pacific Gas and Electric Company (PG&E) shall maintain a core interstate capacity planning range of between 80% and 105% of forecast average annual daily core demand for the summer months of April through October, and a core interstate pipeline capacity planning range of between 100% and 115% of forecast average annual daily core demand for the winter months of November through March.

- a. This core interstate capacity planning range shall be paid for in their proportionate shares by PG&E's core customers, and by the core transport aggregators in PG&E's service territory, subject to any credit these customers and the core transport aggregators may receive from the sale of any unused excess capacity.
- b. PG&E shall file a Tier Two advice letter within 45 days of today's date to implement the interstate capacity planning ranges adopted in today's decision.
- c. On a continuing basis, PG&E shall file a Tier Two advice letter to update the capacity volumes associated with these planning ranges, once every two years as directed, using the forecast loads published in the latest California Gas Report forecast. The first advice letter update shall be filed with PG&E's advice letter implementing the new capacity planning ranges. The second advice letter updating the capacity volumes shall be filed by April 1, 2017, following the 2016 publication of the California Gas Report forecast, and subsequent advice letter updates every two years after April 1, 2017.

2. Application 13-06-011 is closed.

This order is effective today.

Dated _____, at Sacramento, California.